

Message Text

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ACTION EUR-12

INFO OCT-01 AF-06 IO-11 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 DODE-00 PM-04 H-02 L-03 PA-02

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R 181415Z FEB 76

FM AMEMBASSY BERN

TO SECSTATE WASHDC 2142

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION GENEVA

USMISSION OECD PARIS

USDEL MTN GENEVA

AMCONSUL ZURICH

UNCLAS SECTION 1 OF 2 BERN 0718

DEPT PASS TREASURY AND FRB

EO 11652: N/A

TAGS: EFIN ECON SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: WEEK OF FEB 8-14

1. SUMMARY: THE DOLLAR DECLINED IN HECTIC TRADING THIS WEEK
WHILE GOLD PRICES ROSE SLIGHTLY IN A QUIETER MARKET. IN
DESCRIBING THE FORCES WHICH COULD INFLUENCE THE INTERNATIONAL
VALUE OF THE SF, A GROUP OF GOVT ECONOMISTS AVOIDED
ANY PREDICTIONS ON THE FUTURE COURSE OF THE SF. THE MONEY
AND CAPITAL MARKETS ARE STILL VERY LIQUID, BUT THE DECLINE
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IN INTEREST RATES APPEARS TO BE LEVELING OFF. DUE TO THE
RECESSION, THE CONFEDERATION'S TAX REVENUES IN 1975

WERE CONSIDERABLY BELOW EXPECTATIONS. PROJECTIONS OF THE CONFEDERATION'S FISCAL SITUATION THROUGH 1979 SHOW GROWING DEFICITS TO BE ONLY PARTIALLY OFFSET BY A 10 PERCENT VALUE-ADDED TAX. SWITZERLAND'S PUBLIC DEBT HAS GROWN CONSIDERABLY IN RECENT YEARS AND, IN PER CAPITA TERMS, NOW RANKS FIFTH OUT OF TWELVE MAJOR INDUSTRIALIZED COUNTRIES. UNEMPLOYMENT ROSE AGAIN IN JAN, AND THE PROSPECTS ARE FOR FURTHER INCREASES IN THE COMING MONTHS. THE FEDERAL COUNCIL'S ANTI-RECESSION PROGRAM IS EXPECTED TO GENERATE ABOUT SF 2 BILLION IN NEW ORDERS. ALTHOUGH THE RECESSION SHOULD BOTTOM OUT THIS YEAR, THE FEDERAL GOVT PREDICTS THERE WILL BE LITTLE OR NO REAL ECONOMIC GROWTH IN SWITZERLAND DURING 1976.

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: THE ZURICH FOREIGN EXCHANGE MARKET WAS VERY NERVOUS THIS WEEK, AND THE DOLLAR WEAKENED IN HECTIC TRADING. THE DOLLAR'S DECLINE WAS DUE TO ITS ROLE AS AN INTERVENTION CURRENCY. FOLLOWING THE DEVALUATION OF THE SPANISH PESETA, THE FRENCH FRANC CAME UNDER HEAVY SPECULATIVE SELLING PRESSURE AS MANY PEOPLE ANTICIPATED EITHER A FRANC DEVALUATION OR A DM REVALUATION WITHIN THE EUROPEAN MONETARY SNAKE. THE BANK OF FRANCE SOLD LARGE AMOUNTS OF DOLLARS TO SUPPORT THE FRANC, AND MOST OF THESE DOLLARS WERE IMMEDIATELY CONVERTED INTO EITHER DM OR THE SF. HEAVY INTERVENTION BY THE SWISS NATIONAL BANK (SBN) HELPED TO EASE THE DOLLAR'S FALL AGAINST THE SF. THE GOLD MARKET WAS QUIETER AND LESS ACTIVE THAN FOREIGN EXCHANGE AND PRICES ROSE SLIGHTLY. RATES AS FOLLS:

	2/9(OPEN)	2/13(CLOSE)
SPOT DOLLAR	SF 2.5945	SF 2.6610
FORWARD DISCOUNTS (PCT. P.A.)		
ONE MONTHS	- 4.2	- 4.2
2 MONTHS	- 4.3	- 4.5
3 MONTHS	- 4.3	- 4.3
6 MONTHS	- 4.0	- 4.0
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12 MONTHS	- 3.6	- 3.7
SF/DM	SF 100.71	SF 100.10
GOLD	\$130.00	\$131.25

3. EXCHANGE RATE PROSPECTS: THE LATEST REPORT OF THE GOVT'S ECONOMIC RESEARCH COMMISSION DRAWS ATTENTION TO THE PROBLEMS INVOLVED IN TRYING TO PREDICT HOW THE SF EXCHANGE RATE WILL DEVELOP OVER THE COMING YEAR. WHILE SWITZERLAND'S RELATIVELY LOW RATE OF INFLATION AND CONTINUED BALANCE-OF-PAYMENTS SURPLUSES POINT TO A FURTHER

RISE IN THE VALUE OF THE SF, THE POSSIBILITY CAN NOT BE RULED OUT THAT INTEREST RATE DIFFERENTIALS COULD WIDEN TO PRODUCE AN OUTFLOW OF FUNDS WHICH WOULD EXERT DOWNWARD PRESSURE ON THE SF. THE COMMISSION MADE NO EFFORT TO PREDICT WHAT WILL HAPPEN TO THE SF.

4. MONEY AND CAPITAL MARKETS: LIQUIDITY IS STILL IN VERY GOOD SUPPLY, BUT THE DECLINE IN INTEREST RATES APPEARS TO BE LEVELING OFF. THE CALL MONEY RATE REMAINS AT A NOMINAL 0.25 PERCENT. THE MEDIAN YIELD ON OUTSTANDING CONFEDERATION BONDS ROSE A BIT FROM 5.35 PERCENT ON FEB 6 TO 5.37 PERCENT ON FEB 13. THE MEDIAN YIELD HAS BEEN HOLDING FAIRLY STEADY AT JUST UNDER 5.40 PERCENT FOR THE PAST SEVERAL WEEKS.

5. BALANCE OF PAYMENTS: THE SWISS CREDIT BANK ESTIMATES THAT SWITZERLAND'S BALANCE OF PAYMENTS ON CURRENT ACCOUNT REGISTERED A SURPLUS OF OVER SF 7 BILLION (ABOUT \$2.7 BILLION AT AN AVERAGE EXCHANGE RATE OF SF 2.58 EQUALS ONE DOLLAR) ON 1975. THIS DRAMATIC IMPROVEMENT FROM THE 1974 CURRENT ACCOUNT SURPLUS OF SF 510 MILLION (\$171 MILLION) IS ATTRIBUTED TO THE MARKED DROP IN IMPORTS AND TO A DECLINE IN FOREIGN WORKER REMITTANCES.

6. FISCAL REVENUES: ACCORDING TO PRELIMINARY DATA RELEASED BY THE FEDERAL DEPT OF FINANCE AND CUSTOMS, THE CONFEDERATION'S TAX REVENUES IN 1975 WERE SOME SF 764 MILLION LESS THAN BUDGETED. BLAMING THE CURRENT RECESSION FOR THE LESS THAN EXPECTED INCOME, THE FINANCE DEPT ESTIMATED THAT THE CONFEDERATION'S OPERATING DEFICIT FOR 1975 WOULD BE SF 1.2 TO SF 1.3
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BILLION RATHER THAN THE SF 458 MILLION PROJECTED IN THE BUDGET (THESE FIGURES DO NOT INCLUDE THE RAILWAY AND POSTAL SYSTEM DEFICITS TOTALING ANOTHER SF 1.2 BILLION WHICH THE CONFEDERATION MUST FINANCE.) THE MAJOR SHORTFALLS IN FISCAL REVENUE ARE SHOWN BELOW (IN MILLIONS OF SF):

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	ACTUAL REVENUES	SHORTFALL
	FROM BUDGET	
TURNOVER TAXES	3,205	- 315
DEFENCE (INCOME) TAX	2,216	- 64
CUSTOMS DUTIES	992	- 230
TOBACCO TAX	552	- 148
OTHERS	4,061	- 7
TOTAL	11,026	- 764

7. CONFEDERATION FINANCIAL PLAN: THE FEDERAL COUNCIL
HAS RELEASED ITS FINANCIAL PLAN FOR THE YEARS 1977
THROUGH 1979. EVEN THOUGH THE COUNCIL REPORTS THAT
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EVERY EFFORT WILL BE MADE TO HOLD DOWN FEDERAL EXPENDITURES,
THE POTENTIAL DEFICIT (INCLUDING THE RAIL AND POSTAL
SYSTEM DEFICITS) WITHOUT ADDITIONAL REVENUES COULD REACH
ALMOST SF 4.8 BILLION (22.8 PERCENT OF PROJECTED EXPENDITURES)
BY 1979. IN ORDER TO MINIMIZE THE GROWING DEFICIT, THE COUNCIL
PROPOSES TO REPLACE THE PRESENT SYSTEM OF TURNOVER TAXES WITH
A 10 PERCENT VALUE-ADDED TAX (VAT) BY 1978. FOLLOWING ARE THE
FINANCIAL PLAN'S BUDGET PROJECTIONS (IN MILLIONS OF SF):

	1977	1978	1979	
CONFEDERATION DEFICIT		2,397	2,775	3,801
RAIL AND POST DEFICITS	1,011	950	950	
TOTAL TO BE FINANCED	3,408	3,725	4,751	
ESTIMATED VAT REVENUES	--	3,000	3,100	
REMAINDER TO BE FINANCED		3,408	725	1,651

8. PUBLIC DEBT: IN ITS FEBRUARY BULLETIN, THE UNION BANK OF SWITZERLAND (UBS) PUBLISHED COMPARATIVE STATISTICS ON THE PUBLIC DEBT (FEDERAL, STATE AND LOCAL GOVTS) OF TEN EUROPEAN INDUSTRIAL NATIONS, PLUS THE U S AND JAPAN. AT THE END OF 1975, SWITZERLAND'S PUBLIC DEBT AMOUNTED TO SF 39.6 BILLION, WHICH IS SF 6,097 PER CAPITA AND 28 PERCENT OF 1975 GNP. IN PER CAPITA TERMS, SWITZERLAND RANKS FIFTH OUT OF THE TWELVE COUNTRIES (AFTER THE U S., SWEDEN, BELGIUM, AND GREAT BRITAIN). SWISS PUBLIC INDEBTEDNESS AS A PERCENTAGE OF GNP RANKED SEVENTH. THE UBS PREDICTED THAT SWITZERLAND'S CUMULATIVE PUBLIC SECTOR DEFICITS OVER THE NEXT FOUR YEARS COULD TOTAL SF 24 BILLION (THIS DOES NOT TAKE ACCOUNT POSSIBLE VAT REVENUES CITED ABOVE.) THE UBS EXPRESSED CONCERN ABOUT THE IMPACT THIS POTENTIAL NEW BORROWING COULD HAVE ON THE SWISS CAPITAL MARKET AND CALLED FOR A REDUCTION IN FUTURE PUBLIC SECTOR SPENDING AND FOR IMPOSITION OF A VAT.

ECONOMIC

9. UNEMPLOYMENT: DURING JAN THE NUMBER OF OFFICIALLY UNEMPLOYED PERSONS IN SWITZERLAND ROSE MORE THAN 20 PERCENT TO REACH 31,579 AT THE END OF THE MONTH. THIS REPRESENTS APPROX 1.1 PERCENT OF THE TOTAL WORK FORCE AND IS ALMOST 15 TIMES GREATER THAN THE NUMBER OF UNEMPLOYED AT THE END OF JAN 1975.

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10. VACANT HOUSING: GOVT STATISTICS SHOW THAT 50,724 HOUSING UNITS WERE VACANT AT THE BEGINNING OF DEC LAST YEAR, AN INCREASE OF 64 PERCENT OVER THE PREVIOUS DEC. THE CONSTRUCTION INDUSTRY, HOWEVER, CLAIMS THAT THE GOVT'S FIGURES UNDERESTIMATE THE PRESENT DISMAL SITUATION AND PLACE THE NUMBER OF UNOCCUPIED DWELLINGS AT 80,000. WHICHEVER NUMBER IS CORRECT, THE EXCESS OF RESIDENTIAL HOUSING AND THE STAGNATION OF THE SWISS POPULATION INDICATE A RATHER BLEAK FUTURE FOR THE SWISS BUILDING TRADES.

11. ANTI-RECESSION PROGRAM: THE FEDERAL COUNCIL PUBLISHED THIS WEEK THE DETAILS OF ITS PROPOSED PROGRAM TO STIMULATE ECONOMIC ACTIVITY AND CREATE EMPLOYMENT (SEE BERN 267). THE PROGRAM CONSISTS PRIMARILY OF ABOUT SF 800 MILLION IN DIRECT FEDERAL INVESTMENTS AND NON-RECURRENT GRANTS OF 10 PERCENT

TO SUBSIDIZE CANTONAL AND LOCAL INVESTMENT PROJECTS. ALTOGETHER
THESE MEASURES ARE EXPECTED TO GENERATE ADDITIONAL ORDERS
WORTH APPROX SF 2 BILLION AT A TOTAL COST TO THE FEDERAL
GOVT OF ROUGHLY SF 900 MILLION.

12. ECONOMIC FORECAST: IN TWO RATHER GLOOMY ECONOMIC
REPORTS ISSUED THIS WEEK, THE FEDERAL GOVT PREDICTED MORE
PLANT CLOSURES AND A FURTHER INCREASE IN UNEMPLOYMENT AND
SHORT-TIME WORKING IN THE COMING MONTHS. NO REAL INCREASE
IN INDUSTRIAL INVESTMENT OR PRIVATE CONSUMPTION IS EXPECTED
THIS YEAR, AND THE CONSTRUCTION SECTOR IS LIKELY TO CONTINUE
DECLINING. THE ONLY ENCOURAGING FACTOR IN THE PRESENT ECONOMIC
PICTURE IS THE SLOWING RATE OF INFLATION. THE REPORTS
STATE THAT THE ECONOMIC RECOVERY NOW UNDERWAY IN THE U S AND
OTHER INDUSTRIALIZED COUNTRIES GIVES GROUNDS FOR
HOPE THAT EXPORTS WILL INCREASE, AND THE RECESSION WILL
BOTTOM OUT IN THE COURSE OF THIS YEAR. THE GOVT PREDICTS THAT
THE SWISS ECONOMY WILL HAVE LITTLE OR NO REAL GROWTH IN 1976
BUT POINTS OUT THAT THE 1975 DECLINE IN ECONOMIC ACTIVITY SHOULD
BE SEEN AGAINST THE BACKGROUND OF THE OVERHEATED CONDITIONS
THAT PREVAILED UNTIL 1973. DESPITE THE RECESSION, SWISS LIVING
STANDARDS ARE CONSIDERABLY HIGHER NOW THAN THEY WERE IN THE
LATE 1960'S. IN 1975 REAL GNP WAS EQUIVALENT TO THAT OF
1971-72, THE VALUE OF EXPORTS WAS ABOUT THE SAME AS IN 1972-73,
AND THE LEVEL OF INDUSTRIAL PRODUCTION WAS IDENTICAL TO THAT
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OF 1969-70.
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